



## State of Utah

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Insurance Commissioner

# Insurance Department

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## Tips When Considering Long-Term Disability Insurance

“In a down economy,” said Utah Insurance Commissioner Neal T. Gooch, “many people may not realize what a valuable asset their ability to work is. It’s when illness or injury strikes and keeps them from earning a living,” he concluded, “that they begin to wonder how they will pay their bills.” According to the Social Security Administration

<http://www.ssa.gov/pressoffice/basicfact.htm>, more than one in four of today's 20 year-olds will become disabled before reaching retirement age. Yet, the U.S. Census Bureau

<http://www.bls.gov/ncs/ebs/benefits/2010/ownership/private/table12a.pdf> finds that only 31% of U.S. private industry workers have long-term disability insurance as part of their insurance benefits. The Utah Insurance Department under the direction of Commissioner Gooch, offer these tips when considering individual long-term disability insurance options.

### Disability Insurance

Disability insurance is not the same as workers' compensation. In the case of disability insurance, the injury or illness does not have to be the result of a workplace incident or exposure. In fact, research by the U.S. Department of Education and the National Institute on Disability and Rehabilitation shows that the most common causes of long-term disability are heart disease, back injury and cancer, followed by anxiety and depression.

There are two types [http://www.naic.org/Releases/2007\\_docs/insure\\_u\\_disability.htm](http://www.naic.org/Releases/2007_docs/insure_u_disability.htm) of disability insurance available to individuals: short-term and long-term. Short-term will typically replace a portion of the policyholder's salary from three to six months following the disability. Long-term will generally begin six months after the disability and can last a few years or even until retirement age.

### Figuring How Much Long-Term Coverage You Need

Before purchasing long-term disability insurance, determine [http://www.insureuonline.org/consumer\\_alert\\_figuring\\_your\\_disability\\_needs.pdf](http://www.insureuonline.org/consumer_alert_figuring_your_disability_needs.pdf) how much income you need to meet critical financial obligations such as rent/mortgage, food, fuel/transportation, utilities, etc. An easy way to do this is by adding up your monthly expenses and then comparing them with the income from any existing disability coverage, plus any income from other sources, such as personal savings.

A disability can also bring with it increased or additional expenses like health care costs, assistance with daily activities, even home modifications. Keep this in mind while evaluating the amount of coverage you could need.

## Comparing Disability Policies

When considering long-term disability policy options, here are several definitions and benefits you should carefully compare to determine the best coverage for your future needs:

- ✓ **Definition of Disability** - The definition of disability will vary from policy to policy. Some may pay benefits if you are unable to perform the duties of your occupation, while others may require that your disability keep you from performing the tasks of any gainful employment.
- ✓ **Extent of Disability** - Some policies may require you be totally disabled before it pays benefits, while others may pay a limited amount or for a limited time if your injury limits you to performing only part of your job - often called partially disabled.
- ✓ **Disabilities Covered** - The list of covered accidents or illnesses considered disabilities under the policy will vary. Some policies will only cover disability arising from accident and not illness.
- ✓ **Residual Benefit(s)** - This coverage fills in a gap in income if you are partially disabled and your income is reduced because you cannot perform all the responsibilities of your job. This may be included in your policy or can be added as a rider.
- ✓ **Amount of Benefits** - A typical disability policy benefit is approximately 60% of earned income pre-disability. Benefits are generally based on your income at the time the policy is purchased. The percentage benefit can be affected by other sources of disability support such as Social Security disability payments, employer long-term disability insurance, etc.
- ✓ **Waiting Period** - Sometimes referred to as an elimination period. Generally you have a choice of how long you think you can wait to receive your benefit after the onset of disability. Policies with longer waiting periods generally have lower premiums. It is common to have to wait up to thirty days after this period to receive your first benefit payment.
- ✓ **Length of Coverage** - You will generally have an option of benefit terms ranging from one year to retirement age. Choosing a shorter time period likely will make a premium lower, but also means that benefits could run out while you are still disabled.
- ✓ **Inflation Protection** - A cost-of-living adjustment (COLA) may be an option for an additional premium. This rider can increase benefit payouts by a specific percentage, generally between 4-10%, each year. Additional coverage to keep up with annual raises or promotions may also be available.
- ✓ **Waiver of Premium** - Typically included in these policies is a waiver that exempts you from paying premiums after you've been disabled for 90 days until your disability ends.
- ✓ **Renewability** - Most long-term disability policies come with one of two renewability provisions: non-cancelable policies will continue at the same price and coverage as long as you pay your premiums on time; guaranteed renewable means the policy will be renewed automatically, but the premium may increase. Conditionally renewable or optionally

renewable may also be terms you'll see in a policy. For both of these options, the policy can be cancelled for a group of individuals in a common underwriting "class," by geographic location, or for other reasons stated in the policy. Generally the insurance company sends notification prior to a policy renewal date if the policy will be cancelled for one of these reasons.

**Tax considerations** - Payments received from an individual disability policy are income tax-free. If payments are made by an employer a portion of the benefit may be taxable.

## **Social Security Benefits**

Social Security pays disability benefits <http://www.ssa.gov/disability/> to people who cannot work because of a medical condition that is expected to last at least one year or is terminal, and for individuals who meet two earnings tests. After applying, it can take several months to process the application. The SSA bases benefits on average lifetime earnings. Unlike with a long-term disability insurance policy, family members may also be eligible for Social Security benefits. Remember, receiving Social Security benefits can affect the amount of benefit you would receive from a long-term disability insurance policy.

## **Finding Individual Long-Term Disability Coverage**

If the long-term disability coverage your employer offers as part of your benefit package is not enough to cover your needs, there are options for purchasing additional individual coverage.

First, if you have coverage through work ask if there is an option to increase coverage through the group policy. You will generally be responsible for the full cost of the increased coverage, but may not have to go through an underwriting process. However, the coverage is not likely transferable to another job.

If transferability is important or there is not a long-term disability option at work, check with professional organizations in your field. This type of coverage can be less expensive than an individual policy.

Finally, any individual can pursue long-term disability coverage with the help of an agent or directly with many companies.

## **More Information**

Protect your investment. Before you write a check or sign paperwork for a policy, always confirm the agent and company you have selected are licensed. You can do this by going to the Utah Insurance Department's website at <https://secure.utah.gov/cas/search?page=searchMenu> or by calling 801-538-3077. The Department's consumer representatives can also answer your questions about short and long-term disability insurance by calling the above number or emailing them at [health.uid@utah.gov](mailto:health.uid@utah.gov).